



Enterprise HCM vs. ERP: Making the Right Call



At the outset of this new decade, business is more complex than ever.

To paraphrase Marshall Goldsmith: no matter your industry, products, or services, **“what got you here won’t get you there.”** The larger your company, the more likely it is to involve multiple global markets, a vast array of different employee types and pay schemes, and multiple systems that need to be integrated to ensure success. At the same time, the largest companies have the most to lose in terms of reputation and employer brand when things go wrong. To ensure that businesses are living up to their brand promise, they require the right practices and technology that best meet the needs of the organization, beginning with its people — their most important asset. It’s only when these needs are met that organizations can thrive.

Companies across the globe have experienced tragic impacts to their employees’ work lives along with public embarrassment after investing in the wrong solutions. Consider payroll as one critical example. Research from the Workforce Institute at UKG shows that an estimated 82 million Americans have experienced a problem with their paycheck during their career. In 2016, the U.S. Department of Labor found more than \$266 million in back wages owed to workers whose employers failed to comply with federal labor laws. The potential for these errors increases dramatically for larger companies processing a huge volume of payroll. Whether due to technical failure or inadequate compliance, these errors are even more disastrous to the 58% of Americans who live paycheck-to-paycheck. In other cases, workers are overpaid at considerable cost to organizations — an estimated more than 13.6 million Americans — and may not rush to alert their employers to the mistake.¹

Accuracy, consistency, scalability, legal compliance, and error-prevention are crucial. To tackle these HR and payroll challenges while better managing their workforces, many leading corporations have turned to either cloud-based human capital management (HCM), enterprise resource planning (ERP) software, or a combination of the two.

Each of these approaches requires extensive research into the solution vendors that provide the functionality you need, and may require you to prioritize certain business goals and practices over others to establish the best fit for your organization. In every case, implementing new software demands cooperation across many departments and existing systems, alongside training for the ultimate end users: your employees.

Before we can examine the advantages and drawbacks of these approaches, let's take a look at some operating definitions for each solution:

Enterprise resource planning

Enterprise resource planning (ERP) refers to any software platform for business management, and most commonly often involves several applications corresponding to many different business activities. An ERP can span business practices ranging from financial accounting and procurement, to customer relationship management (CRM), all the way to human resources and sales enablement. ERPs can be appealing due to their emphasis on keeping finance and HR in one place as well as the sheer breadth of functionality, but their solutions often lack the depth and expertise required to be nimble when dynamics are constantly evolving, and can struggle with large and/or complex workforces.

Human capital management

Human capital management (HCM) solutions, also called human resource management systems, are software suites that are dedicated solely to the vast array of organizational needs related to people operations — spanning human resources, workforce management, payroll, benefits, and talent management. Best-in-class HCM supports the full employee lifecycle from recruiting to career development through retirement and succession, and emphasizes powerful reporting and analysis across all business areas. HCM does not include finance software or CRM functionality, but offers deep, flexible, and highly scalable people management for even very large organizations. Frequently, HCM also includes the additional required services and expertise needed to connect internal teams as well as third-party vendors.

Choosing a vendor that meets your business needs can lead to a huge return on investment, but making the right decision for your organization can be a daunting task, involving many stakeholders across multiple departments. The best approach for your enterprise comes down to your strategic business goals and your priorities.

For large enterprise organizations, people operations and management needs can vary wildly from company to company. The complexity of these needs only scales upward with corporate growth, making it harder to promote your internal culture, make progress on corporate initiatives, and tap into the needs of your employees to ensure their well-being on the job, while maintaining high productivity. Fundamental yet compulsory processes such as payroll can also be complicated by multiple business units (FEINs), geographically dispersed locations with varying tax laws, a workforce split between full-time, part-time, on-site, and virtual employees—and even new types of workers only recently introduced. At the same time, the workforce complexity at these organizations makes them vulnerable to a wide array of compliance risks that can carry costly fines.

The most pertinent changes to the enterprise market impacting employers are the tectonic shifts taking place in the workforce itself. Often grouped under the umbrella term of *workforce fluidity*, a variety of substantive changes to how, why, where, and when employees work are either currently gaining prominence or have already become established trends at the start of the new decade. These include the prevalence of a contingent workforce and the so-called “gig economy,” near-universal acceptance of remote/virtual employment, an emphasis on flexible earned wage access or on-demand pay, a new demand for consistent and continuous employee feedback, the abandonment of traditional performance management processes, and other alterations to the work habits and expectations of employees.

At the same time, the events of 2020 forced employers worldwide to adapt to unexpected disruptions. Changes that were already underway due to blanket economic forces were massively accelerated, and companies that had robust work-from-home policies in place found themselves with a huge advantage over competitors that were suddenly scrambling to adapt. Work styles and even entire roles for individual employees were altered overnight. As lockdowns and new industry precautions continued to change the way business was done, employers excelled when they could accommodate new types of employee leave and sudden shifts between on-site and remote operations. Rapid adaptation proved more valuable than ever.

As a result, the most effective solutions to people operations and management needs for large companies are not necessarily those with the biggest number of modules, the most processing power, or the largest infrastructure. Instead, consider those with the flexibility to quickly adapt to evolving employee needs and motivators, the scalability to handle growth and changes in hiring, the configuration options needed to operate in different markets, seamless integration with third-party vendors, and support for ancillary HR processes that would ordinarily need to take place on paper. These factors can be rolled up into the quality of agility: rapid response and proactive steps to meet workforce needs. This applies to daily operations for any organization, but also the kind of rapid response required for business continuity in times of crisis, as seen during the COVID-19 pandemic. The most successful organizations are poised to anticipate employee needs even when ordinary styles of work are massively disrupted, or your entire business strategy is forced to pivot. Seeking technology with this kind of agility can be the key to greater employee retention, one of the most pressing concerns for large organizations.

Ultimately, for most enterprise organizations, the best solution to HR, payroll, and workforce management processes is one that can be simply left alone, rather than requiring significant upkeep, testing, or dedicated resources. In this guide, we'll examine a number of the workforce changes, strategic factors, and areas of organizational impact described above, and the impact choosing the right technology can have on each of them.



The gig economy

In recent years, a dramatic shift of the types of employees comprising the labor force has taken place. Specifically, independent workers paid by the “gig” (i.e. an individual task, project, or other contract) have exploded from a small fraction of the overall marketplace to a massive chunk, from 15.8 percent of the U.S. workforce in 2015² to more than one-third in 2018³ as technology has morphed to accommodate this style of work. This figure includes many individuals who work one job in a traditional full- or part-time employment structure and another job on a contingent basis.

While this extraordinary shift is creating exciting new market forces for the economy, it is creating new challenges for large enterprise organizations at the same time, who are increasingly employing large numbers of these “gig workers.” The first is that of complexity — contingent workers often have extremely unusual schedules and may be performing most or all of their duties outside of an office environment. They have unique needs when it comes to technology and support, and pay structures for these non-traditional employees can be radically different and more complex. These administrative and payroll challenges are only multiplied for a company with a very large workforce split between full-time/salaried, part-time hourly, and contingent employees.

The other challenge introduced by the gig economy is one of scalability. Dependent on the time of year, market events, regional variation, and countless other factors, the number of contingent workers employed by a given enterprise at any one time may vary wildly. Requiring a similar layer of consideration to the seasonal hiring of traditional employees (and for some companies, appearing in tandem *with* seasonal hiring), gig workers demand technology solutions that can scale to meet the needs of even dramatically different workforce sizes over the course of the year, and facilitate accurate, on-time pay for all of these workers.

ERPs, often built on a foundation that assumed traditional employee types and pay structures, may require separate modules outside of the primary payroll function to accommodate these nontraditional employees, and may even lack a unified interface for a view of the entire workforce. Similarly, this type of software can have trouble adapting to large differences in employee size and distribution over the course of the year, resulting in slower payroll and even costly processing errors and penalties. Agile, cloud-based HCM is instead designed to adapt rapidly and offer powerful configurability, even for the new uncertainties of the gig economy.



Integration

For any large company, integration with third parties is an absolutely fundamental piece of the enterprise technology puzzle. Deciding on an outside partner must be viewed as a business decision to the benefit of the entire organization, rather than a technology hurdle to overcome. Simply put, an ideal HR and payroll vendor relationship is one that offers seamless integrations without hidden costs.

Integration is one of the most common areas of difficulty experienced by ERP platforms. Because data may be derived from and housed in many different sources across different applications, processing and delivering that data in the appropriate format may involve an enormous amount of custom design work with a vendor to be able to integrate successfully. This additional complexity can delay implementations multiple times over, resulting in unexpected additional fees and budget overruns.



With an ERP, they're great from a functional/transactional level... designed to integrate with themselves but not with others. The risk versus rewards of having a total HCM outweigh the benefits we could get through an ERP system.



**Brad Orth, Executive Director, Information Services
Cherokee County Public Schools**

On the other hand, look for HCM solutions that emphasize secure data exchange and offer a strong partner network with certified, pre-built integrations. These factors dramatically cut down the necessary lead time to connect. Integrations should be “hands-off,” working as expected after the initial set-up. Best-in-class HCM can even provide an application programming interface (API) with step-by-step guidance for business leaders to create their own, including even complex and highly-customized integrations, *without* the need for intervening from IT or ongoing maintenance.



[Built-in] integration with third-party providers and systems has eliminated days of data entry for our HR teams.



**Trudy Gokey, Director of Benefits and HRIS
Rosen's Diversified Inc.**

Compliance

Compliance risks leave enterprise organizations vulnerable to fines stretching into the millions of dollars per year. Your HR, payroll, and workforce management solution should be an ally here, helping your company proactively avoid these risks and comply with even the most complex and rapidly changing regulations without needing to seek outside assistance. These potential hazards are only intensified if your organization operates in multiple countries, has multiple FEINs, stores personally identifiable information (PII), or all of the above.

ERP systems are rarely built with compliance and regulation assistance in mind. Since data may be stored in a variety of unrelated locations for separate business purposes, reporting on necessary workforce data can quickly become a complicated, manual undertaking. Data transfer or deletion requests can require intervention from a multitude of different teams and numerous checks for accuracy. Furthermore, rapid changes to existing laws or unexpected legislation can throw a wrench into business and people operations as ERPs react slowly to accommodate.

Meanwhile, cloud HCM systems are built to adapt quickly to evolving regulations and provide efficiencies to help with specific compliance needs. Consider the recent California Consumer Privacy Act (CCPA) and Global Data Protection Regulation (GDPR). These laws mandate stringent requirements for how large companies can collect, handle, transfer, and utilize individual user data, with new resulting rights for consumers including the ability to request the removal of this data from company databases. Best-in-class solutions will provide tools to automate these requests with dashboards to make it simple to track them and ensure compliance. At the same time, HCM built with compliance in mind will make reporting simple, offering built-in reports that are automatically kept up-to-date for complex legislation including the Affordable Care Act (ACA) and laws passed in response to the COVID-19 pandemic.



With cloud-based HCM, we can generate real-time workforce analytics that are needed for turnover analysis, workers' compensation, and ACA compliance, and deliver it directly into the hands of the people who need it, whenever it is needed.



Rich LaCalamito, HR Manager
Ginkgo Residential

Continuous feedback

As the “who” of the workforce continues to evolve alongside the “how,” big changes are also taking place with regard to employee performance. Traditional employee evaluations and annual reviews are frequently modified or discarded in favor of more holistic approaches, with tangible business results including higher retention and fewer costly disruptions in the event that key talent needs to be replaced.

Many large enterprise organizations are abandoning “one-size-fits-all” performance reviews in favor of continuous feedback structures that can be tailored to meet the needs of both the organization at large and individual teams. These approaches give employees the ability to record their goals, competencies, and milestones for a merit-based impact on their compensation, while involving feedback from more stakeholders than just their direct supervisor. Seeking out the technology to support these goals can improve retention, meaningfully boost performance for those needing help, and empower all employees with agency in their own career pathing.

By unifying all talent data with HR and payroll, a robust HCM solution can transform the traditional review cycle into a mutually beneficial experience that strengthens employee ties to your company’s overall strategic goals. ERP systems may offer performance management functionality, but these modules are often detached from the main source of HR data and lack the potential for continuous, two-way feedback offered by employee-centric HCM.

Sentiment analysis

New technology has also begun to make positive inroads into the antiquated, long-established practice of collecting employee feedback, even rendering its conventional methods obsolete. Traditional year-end employee surveys have long been failing to address organization and employee needs and provide actionable insight. These surveys are considered too long or poorly designed, and the analysis of their results may require a third-party consultant, further extending the timeline; typically formalized results take so long that responses can change before any action plan is even created, let alone executed. They can even discourage employees from voicing important issues because of the failures of past engagement surveys to address them.⁴

If an ERP includes survey functionality at all, it is likely to fall prey to these outmoded traits because such platforms have not prioritized innovation in the space. On the other hand, staggering advancements in technology such as natural language processing (NLP) and machine learning enable surveys that *have* adapted to counter these failings, and can deliver unprecedented insight into employees’ true sentiments about their teams, managers, and organizational culture in real time. Sentiment analysis based on natural language processing can meet or exceed a human’s ability to identify recurring themes and emotional trends — at a massively accelerated pace and extremely high volume.

Best-in-class HCM solutions combine all of these technological and process enhancements with the guiding hand of an artificial intelligence (AI) platform. Survey results can be analyzed and delivered in days rather than months, while a multitude of performance metrics can be harnessed to identify trends and create actionable insights. This kind of rapid response enables leaders to quickly address team concerns, especially in times of crisis or unexpected business disruption. AI enables the transformation of static, ineffective processes into meaningful real-time feedback, and can even automatically alert and prescribe actions for leaders.

Sentiment analysis has enabled us to address turnover and morale issues, saving \$1.7 million annually due to lower attrition and recruiting costs.

Colleen Wood, Chief People Officer
Level Access

On-demand pay/flexible earned wage access

Payroll has also experienced shifting needs due to an increasing emphasis on prioritizing employee needs, work-life balance, and employer responsibility toward employee well-being. Many forward-thinking organizations are turning to what industry analyst Gartner has dubbed “flexible earned wage access” (FEWA), also called on-demand pay. Simply put, FEWA disrupts the ordinary payment schedule of a bi-weekly (or other regularly administered) paycheck in favor of systems that empower employees with the ability to quickly access a portion of the wages they have earned during a pay period prior to a slated payday. This can improve the financial position of employees by reducing the need to utilize payday loans or credit cards with high interest rates, and is viewed as a powerful tool for recruiting and retention.

Four out of every ten Americans are unable to cover an unexpected expense of \$400 or more, and amidst a strong economy, employees are quitting their jobs at higher rates than any period on record.⁵ FEWA offers workers a powerful new tool for handling their finances, and savvy employers are able to harness the right technology and combine these systems with other initiatives to assist employees with their overall financial well-being. Helping employees control their financial destinies in this way can act as a powerful differentiator for employers looking to improve their retention rates and attract top talent. Less than 5 percent of large companies in the U.S. (with a majority of hourly employees) are currently using a FEWA solution — but Gartner expects this to increase to 20 percent by 2023.

Comprehensive HCM can integrate on-demand pay into your organization’s overall payroll structure without increasing processing time or adding in unnecessary complexity for employees as well as administrators. Large workforces can expect an especially high return on investment here.

HR service delivery

No matter how optimized your business workflows, any large organization is going to bring with it some ancillary HR processes that simply need to get done. Your people need something, and HR delivers it. Perhaps an employee has to submit a tuition reimbursement form, or you have a specific procedure for requesting items for an employee's office environment. Any number of these functions are performed by HR on a daily basis, with unique parameters for your organization. Ordinarily, these proprietary tasks are not addressed by your HR, payroll, or talent management systems at all, but rather would need to be done on paper — bringing with them all the human error and potential storage issues that come along with that — or over the phone, stealing valuable resources from your HR team at a rate that will only scale upward with the size of your employee base.

The critical nature of these ancillary processes was thrown into sharp relief during the events of 2020. Companies with large numbers of essential workers had to adapt quickly to keep business going during the COVID-19 pandemic, and found themselves requiring more documentation and requests to HR than ever before. Suddenly, the organizations that could easily deliver these required services to the entire organization were in a uniquely advantageous position to provide essential workers the support they needed, when they needed it most.

HR cannot rely on an ERP to facilitate these processes. They are simply outside the scope of resource planning technology, and in most cases unable to be addressed by HCM either. However, recent advances in cloud-based HCM have unified it with a new category of solution known as HR service delivery. This flexible platform empowers employees with self-service functionality, offering access to a knowledgebase for common HR tasks and questions. But it also goes beyond this, enabling them to make requests to HR through a simple interface, and track these requests without the need for a phone call or a single paper form. Whether your enterprise is weathering a crisis, navigating a merger, or simply accommodating a larger-than-expected number of home office requests, HR service delivery simplifies these tasks for professionals by providing quick access to and storage of necessary employee files.

We used to rely on banking software to house our documents, which required a manual inquiry from a manager and then several steps for us to retrieve the document and email it to the manager. HR service delivery is saving us so much time, and we're able to shift the focus from administrative tasks to strategic initiatives.

Kristi Shelton, Executive Vice President
Alpine Bank

Each of the forces and potential challenges described above can be a handful for any HR, payroll, or talent management team at a large organization. The effect is only compounded when you consider all of them at once — and the stakes are high. Your bottom line, your retention, and the well-being of your people are all on the line.

We have tremendously reduced the number of errors, because everything is in one system. Instead of moving it from hire and checking experience all the way through pay, it's all in one system.

Ken Owen, Chief Financial Officer
Cherokee County Public Schools

Many organizations enter with the assumption that keeping HR and finance in the same system provides a business advantage, but the better investment is finding the *right partner*. Enterprise companies that use ERP systems often experience challenges hidden well below the surface, long after launch. Other vendors will be a necessity to tackle functions that are native to unified HCM, from tax tables and trend analysis to leave management and scheduling. Billing for ERPs is often not fixed, with many necessary functions charged by the hour or on a recurring basis. Process mapping, change management, and even training and support may carry significant additional fees that dramatically impact your return on investment.

For these reasons, the HR, payroll, and talent management needs of enterprise organizations are best served by software paired with services devoted entirely to those functions. These people-centric areas of your operation demand solutions and services with flexibility, scalability, and above all, a laser-like focus on continuous reinvestment to support them. No matter your industry, serving the workforce quickly and with accurate information is a necessary function — so organizations win when every touch point in the employee lifecycle is unified in a single system. While ERPs may offer applications that appear to cover these areas, their development and budgetary resources are spread across finance, CRM, sales tracking, and other disparate areas. These facets are often emphasized by ERPs instead of people management. In contrast, best-in-class cloud-based HCM will allocate 100% of its resources to HR, payroll, and talent solutions. This consistent focus enables the right HCM solution to better align your everyday administrative processes with your overall business goals, while providing more frequent updates and more responsive support.

About UKG

At UKG (Ultimate Kronos Group), our purpose is people™. Built from a merger that created one of the largest cloud companies in the world, UKG believes organizations succeed when they focus on their people. As a leading global provider of HCM, payroll, HR service delivery, and workforce management solutions, UKG delivers award-winning Pro, Dimensions, and Ready solutions to help tens of thousands of organizations across geographies and in every industry drive better business outcomes, improve HR effectiveness, streamline the payroll process, and help make work a better, more connected experience for everyone. UKG has more than 12,000 employees around the globe and is known for an inclusive workplace culture. The company has earned numerous awards for culture, products, and services, including consecutive years on Fortune's *100 Best Companies to Work For* list. To learn more, visit ukg.com.

References:

1. <https://workforceinstitute.org/82-million-us-workers-experienced-paycheck-errors/>
2. <https://www.naco.org/featured-resources/future-work-rise-gig-economy>
3. <https://www.forbes.com/sites/tjmccue/2018/08/31/57-million-u-s-workers-are-part-of-the-gig-economy/#51ad862e7118>
4. <https://blog.shrm.org/blog/5-reasons-why-year-end-employee-surveys-are-a-thing-of-the-past>
5. <https://www.shrm.org/resourcesandtools/hr-topics/technology/pages/on-demand-pay-broadens-workers-financial-well-being.aspx>



Our purpose is people

© 2021 UKG Inc. All rights reserved.

For a full list of UKG trademarks, please visit ukg.com/trademarks.
All other trademarks, if any, are property of their respective owners.
All specifications are subject to change. CV1344-USv2